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Message Text

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FM SECSTATE WASHDC
TO AMEMBASSY MANILA PRIORITY
INFO AMEMBASSY TAIPEI PRIORITY

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E.O. 11652:N/A

TAGS:ETRD, RP

SUBJECT:COTTON CONTRACT PROBLEM

REF: MANILA 9522

1. EMBASSY SUGGESTION FOR REVIEW OF COTTON CONTRACT PROBLEM IS TIMELY. COTTON SUPPLY AND DEMAND SITUATION TODAY DIFFERS MARKEDLY FROM THAT OF A YEAR AGO, AND PRICES APPEAR LIKELY TO REMAIN AT HIGH LEVELS FOR SEVERAL MONTHS. THIS CHANGED SITUATION AFFECTS BUYERS' AND SELLERS' POSITIONS ON CONTRACTS AND MATERIALLY CHANGES PROBLEM LETTERS OF ASSURANCE WERE DESIGNED TO DEAL WITH.

2. WASHINGTON AGENCIES ARE, ACCORDINGLY, REVIEWING STATUS OF PERFORMANCE UNDER LETTERS OF ASSURANCE AND EVALUATING FUTURE NEED FOR ASSURANCES. US SHIPPERS
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HAVE BEEN ASKED TO REPORT STATUS OF ALL CONTRACTS ON

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LETTERS OF ASSURANCE. SEVERAL SHIPPERS HAVE ALREADY REPORTED CANCELLATIONS. ALSO, REPUBLIC OF CHINA HAS NOTED NUMBER OF CANCELLATIONS IN ITS RECENT STATUS REPORT ON COTTON CONTRACT PROBLEMS. A REPORT FROM THE DEVELOPMENT BANK OF THE PHILIPPINES TO UPDATE EARLIER

REPORTS ON OUTSTANDING CONTRACTS COVERED BY ASSURANCES AND MEASURES BEING TAKEN BY GOP TO ENFORCE THEM WOULD BE USEFUL AT THIS TIME.

3. WASHINGTON AGENCIES HAVE ALSO ASKED US COTTON SHIPPERS FOR THEIR VIEWS ON CONTINUING NEED FOR ASSURANCES. WE EXPECT TO RECEIVE REPORT FROM SHIPPERS SHORTLY ON ANY PROBLEMS THEY FORESEE AND WILL SUBSEQUENTLY CONSIDER POSSIBLE COURSES OF ACTION.

4. WITHOUT ADDRESSING MERITS OF EMBASSY'S RECOMMENDATION THAT PHILIPPINES BE OFFERED A SUBSTANTIAL CCC CREDIT LINE FOR COTTON, WASHINGTON AGENCIES NOTE THAT CCC FUNDS ARE PRESENTLY SCARCE AND PROSPECTS ARE THAT, IN THE LIGHT OF OVERALL COTTON MARKET SITUATION AND DEPLETED BUDGET, CCC FINANCING CANNOT BE MADE AVAILABLE TO PHILIPPINES FOR COTTON AT THIS TIME.

5. WASHINGTON AGENCIES STAND CORRECTED REGARDING CANCELLATION OF A CURRENTLY VALID CONTRACT BUT NOTE THAT CONTRACT CANCELLATION CITED BY EMBASSY WAS NOT COVERED BY LETTER OF ASSURANCE AND THAT STARK-TAYLOR'S ALLEGATION THAT CANCELLATION WAS CONSISTENT WITH FIRM'S CONTRACT OBLIGATIONS HAS NOT BEEN EFFECTIVELY REBUTTED. WHILE WASHINGTON AGENCIES APPRECIATE UNHELPFUL IMPACT OF CANCELLATION ON DPB ATTITUDES TOWARD LETTER OF ASSURANCE, THEY DO NOT BELIEVE THIS CANCELLATION RELIEVES DBP OF ITS OBLIGATIONS UNDER LETTER. KISSINGER

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